

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT CONTROLS OF ADMINISTRATIVE
OPERATIONS AT THE U.S. MISSION TO THE
NORTH ATLANTIC TREATY ORGANIZATION,
BRUSSELS, BELGIUM

Report No. 97-195

July 24, 1997

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Department of Defense

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Acronyms

COR	Contracting Officer's Representative
DFAS	Defense Finance and Accounting Service
NATO	North Atlantic Treaty Organization



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July 24, 1997

**MEMORANDUM FOR U.S. AMBASSADOR TO THE NORTH ATLANTIC
TREATY ORGANIZATION
UNDER SECRETARY OF DEFENSE FOR POLICY
DIRECTOR, WASHINGTON HEADQUARTERS
SERVICES
DIRECTOR, JOINT ADMINISTRATIVE SERVICES,
BRUSSELS, DEPARTMENT OF STATE**

**SUBJECT: Audit Report on Management Controls of Administrative Operations at the
U.S. Mission to the North Atlantic Treaty Organization, Brussels, Belgium
(Report No. 97-195)**

We are providing this audit report for review and comment. The audit was requested by the U.S. Ambassador to the North Atlantic Treaty Organization to assist in improving the administrative operations at the U.S. Mission. Management comments on the draft of the report were considered in preparing this report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense for Policy did not submit comments on the draft report. We request that the Under Secretary of Defense for Policy provide comments on Recommendation 3. by August 25, 1997. No further comments are required from the other addressees.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Joseph P. Doyle, Audit Program Director, at (703) 604-9348 (DSN 664-9348) or Ms. Deborah L. Culp, Audit Project Manager, at (703) 604-9335 (DSN 664-9335). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97-195
(Project No. 6CK-5043)

July 24, 1997

Management Controls of Administrative Operations at the U.S. Mission to the North Atlantic Treaty Organization, Brussels, Belgium

Executive Summary

Introduction. The audit was requested by the U.S. Ambassador to the North Atlantic Treaty Organization to ensure the U.S. Mission to the North Atlantic Treaty Organization (the Mission) was in full compliance with applicable laws and regulations, and to improve administrative operations. The Inspector General, DoD recognizes the Ambassador's personal involvement, support, and cooperation in this audit effort.

The Mission provides political and military expertise to the U.S. Permanent Representative on the North Atlantic Council (U.S. Ambassador to the North Atlantic Treaty Organization). The Mission is considered a Department of State organization; however, it is a joint operation, funded and operated by DoD, the Department of State, the U.S. Information Agency, and the Federal Emergency Management Agency. The U.S. Government spends about \$8.5 million per year to fund the operating cost of the Mission. DoD funds about \$6.5 million of the operating cost and the Department of State funds about \$2 million which does not include Department of State employees' salaries.

Audit Objectives. The original audit objective was to determine whether DoD funds at the Mission were properly managed and used. During the audit, we coordinated with the Office of the Inspector General, Department of State and, at the U.S. Ambassador to the North Atlantic Treaty Organization's request, we expanded the audit objective. The expanded audit objective was to determine whether the administrative functions at the Mission were in compliance with applicable laws and regulations, and were properly managed. In addition, we reviewed management controls over the administrative functions at the Mission. See Appendix A for a discussion of the audit scope and methodology and for a summary of prior coverage related to the audit objectives.

Audit Results. The accountability for, and the efficiency and effectiveness of, administrative functions (finance, contracting, time and attendance, personnel, property, petty cash, and representation funds) at the Mission needed improvement. Inconsistencies and inadequacies in the way routine administrative operations were performed led to misunderstandings and errors. Further, the Mission did not have adequate control over DoD funds and other resources to safeguard against waste and mismanagement. In addition, the management control program needed to be improved because of material management control weaknesses in the Mission's administrative operations. See Part I for a discussion of the audit results and see Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the U.S. Ambassador to the North Atlantic Treaty Organization develop and document policies and procedures over the administrative operations at the Mission. We recommend that the Mission personnel receive training in finance, contracting, time and attendance, and management controls. We recommend that the Mission personnel improve coordination with other organizations that impact the Mission's administrative

operations. We recommend updating servicing agreements between the Mission and DoD organizations, and the Mission and Department of State organizations. Finally, we recommend that a written cost-sharing agreement for Mission operating costs be developed.

We recommend that the Director, Joint Administrative Services, Brussels prepare contracting officer's representative designation letters delineating duties and responsibilities, and restrictions for the Mission contracts.

We recommend that the Under Secretary of Defense for Policy provide oversight and perform or request periodic reviews of the DoD portion of Mission administration.

Corrective Actions Taken. During the audit the Ambassador directed that Mission personnel take immediate corrective actions to improve administrative operations. Accordingly, many of the cited conditions have been acknowledged and corrective actions have been taken or are in process.

Management Comments. The Ambassador concurred with the finding, recommendations, and management control weaknesses. The Ambassador concurred in principle to the recommendation to revise the Mission's chain of command so that the budget officer provides budget and financial information to the Ambassador (Chief of Mission). The Ambassador has completed corrective actions or corrective actions are in process for all recommendations. In addition, the Ambassador responded on behalf of the Director, Joint Administrative Services, Brussels concurring with the recommendation to prepare contracting officer's representative designation letters and notify Mission contracting officer's representatives of their duties, responsibilities, and restrictions. The Under Secretary of Defense for Policy did not provide comments on the draft report. Washington Headquarters Services submitted unsolicited comments to the report which generally agreed with the recommendations. See Part I for a summary of management comments on the recommendations and see Part III for a complete text of management comments.

Audit Response. As a result of management comments and for clarification, we revised the recommendation to have the budget officer provide budget and financial information to the Chief of Mission instead of revising the Mission's chain of command. The Mission's comments met the intent of the recommendation and no additional comments are required. We request comments from the Under Secretary of Defense for Policy on the unresolved issue by August 25, 1997.

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Part I - Audit Results

Audit Results

Audit Background

U.S. Mission to the North Atlantic Treaty Organization. The U.S. Mission to the North Atlantic Treaty Organization (the Mission) provides political and military expertise to the U.S. Permanent Representative on the North Atlantic Council (U.S. Ambassador to the North Atlantic Treaty Organization). Accordingly the Mission is considered a Department of State organization; however, it is a unique organization combining DoD, Department of State, U.S. Information Agency, and Federal Emergency Management Agency personnel under the overall supervision and authority of the U.S. Ambassador to the North Atlantic Treaty Organization (NATO). Under the direction of the Secretary of State, the U.S. Ambassador to NATO advises and assists the Secretary of Defense on Defense matters pertaining to NATO; and keeps the Secretary of State informed of all Mission activities.

The Defense Advisor to the Mission is the senior civilian DoD official serving on the staff of the Ambassador. The Defense Advisor advises and assists the U.S. Ambassador to NATO in the formulation, coordination, and presentation of DoD policies pertaining to NATO. The Defense Advisor also serves as the Senior Civilian Representative of the Secretary of Defense in Europe. As such, the Defense Advisor assists the Secretary of Defense in the formulation, coordination, and presentation of DoD policy in Europe.

Organization Staffing. As of September 30, 1996, the Mission had 86 permanent authorized staff composed of 45 DoD civilian and military personnel, 33 Department of State personnel, 5 U.S. Information Agency personnel, and 3 Federal Emergency Management Agency personnel. About 35 more people are employed by the Mission in part-time, temporary, or contract positions. In addition to the permanent, part-time, temporary, and contract staff, about 14 people are assigned to the Mission from other Defense organizations, but their salaries are not funded by the Mission budget. The cost of military personnel assigned to the Mission is not charged to the Mission budget.

Organization Funding. The U.S. Government spends about \$8.5 million per year to fund the operating cost of the Mission. DoD funds about \$6.5 million of the operating cost of the Mission; while the Department of State funds about \$2 million, which does not include Department of State employees' salaries. The majority of the DoD funding for the Mission is provided by the Washington Headquarters Services, Office of Secretary of Defense. The \$8.5 million of operating funds does not include the U.S. contribution to the NATO budget.

Administrative Support. The U.S. Army, Europe, and the Department of State's Joint Administrative Services, Brussels provide administrative and logistical support for the Mission. Neither the U.S. Army, Europe, nor the Department of State's Joint Administrative Services, Brussels is physically located at the Mission, although each organization has responsibilities for coordination, communication and servicing the Mission.

The Army provides DoD accounting and personnel support through the Kaiserslautern Regional Finance and Accounting Office, Kaiserslautern, Germany, and the 80th Area Support Group (NATO Supreme Headquarters Allied Powers Europe [SHAPE] Support Group), which is located at Chievres Air Base, Belgium, with an element in Brussels. The Army also provides DoD civilian payroll support through the 266th Finance Command, Civilian Pay Directorate, Leiman, Germany. Personnel support is provided by the 80th Area Support Group, (NATO SHAPE Support Group), Chievres Air Base, Belgium, and U.S. Army, Europe, Civilian Personnel Operations Center, Heidelberg, Germany.

The Joint Administrative Services, Brussels provides support to the Mission for Department of State accounting and financial transactions; and makes some disbursements for both Department of State and DoD obligations through the Regional Administrative Management Center, Paris. The Joint Administrative Services, Brussels also provides support to the Mission for property, contracting, and Department of State personnel issues.

The Regional Administrative Management Center, Paris provides accounting information on DoD transactions to the Defense Finance and Accounting Service (DFAS), Indianapolis, which then provides the information to the Army's Kaiserslautern Regional Finance and Accounting Office in Germany.

Audit Objectives

The audit was requested by the U.S. Ambassador to NATO. The audit objective was to determine whether DoD funds at the Mission were properly managed and used. During the audit, we coordinated with the Office of the Inspector General, Department of State and the U.S. Ambassador to NATO and expanded the audit objective to determine whether the administrative functions at the Mission were in compliance with the applicable laws and regulations, and were properly managed. We also reviewed management controls over the administrative functions at the Mission. See Appendix A for a discussion of the audit scope and methodology and the details of our review of the management control program. See the finding for a discussion of the material weaknesses identified.

Administrative Functions

The accountability for, and the efficiency and effectiveness of, administrative functions at the Mission were inadequate. The management controls over the Mission's responsibilities for finance, contracting, time and attendance, personnel, property, petty cash, and representation funds were either ineffective or inadequately documented. In addition, no DoD organization was performing the function of administrative operations oversight for DoD-funded activities. Further, inconsistencies and inadequacies in the way routine administrative operations were performed led to misunderstandings and errors. As a result, the Mission did not have adequate control over DoD funds and other resources to safeguard against waste and mismanagement.

Mission Administrative Responsibilities

The Administrative Advisor (a DoD employee) to the U.S. Ambassador to NATO is responsible for the management of the Mission's administrative functions. The Administrative Advisor's responsibilities include the Mission's budget and finance, communications, time and attendance, personnel administration, travel, construction and maintenance, security, and the logistical support for U.S. components at NATO ministerials (meetings with other NATO country representatives). In addition, the Administrative Advisor has responsibility for certain aspects of the Mission's property, contracting, and petty cash functions. Inherent in the administrative operational duties is the development of policies and procedures as a means of implementing an organization's management control structure. Office of Management and Budget Circular A-123, "Management Accountability and Control," June 21, 1995, states that "Management controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making."

Management Controls Over Financial Operations

The Mission did not exercise adequate control over the DoD portion of its financial operations because Mission personnel were not performing basic Government fund-control processes. Mission personnel did not have a clear understanding of their duties, responsibilities, and interactions vis-a-vis Army and Department of State organizations that provide financial services to the Mission; and incorrectly assumed that the Army and Department of State were performing fund control processes for the Mission. No formal agreement

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existed between DoD and the Department of State for sharing the cost of operating the Mission. Therefore, the Mission had no assurance that DoD funds were properly obligated, disbursed, and accounted for. Failure to adequately control funds could lead to the possibility of fraud, waste, and abuse; loss of use of funds for the Mission; or to an Antideficiency Act violation.

Fund Control Processes. Mission personnel were not performing fundamental Government fund-control processes and procedures. They did not always:

- o document the financial management system,
- o delegate funding authority,
- o control financial documents,
- o create proper obligations for maintenance and repair projects,
- o correctly certify fund availability,
- o require timely submission of vouchers, or
- o reconcile accounts.

The Mission needs to institute written procedures to ensure adequate controls over Government funds.

System Documentation. The Mission did not have an adequately documented financial management system as required by the DoD Financial Management Regulation, DoD 7000.14-R, July 1995. The DoD Financial Management Regulation specifies 13 key accounting requirements with which accounting systems must comply. The key accounting requirements are a composite of requirements of the General Accounting Office, Office of Management and Budget, Department of the Treasury, and DoD. Key requirement number ten "System Documentation," states that documentation should contain flowcharts, a description of processes, and appropriate management controls, and must include "interfaces between accounting system segments." The regulation also states it is essential that the procedures are clear to users, auditors, and evaluators. Mission personnel could not provide us with any documentation of the financial management system, the established management controls, or the responsibilities of the Army and the Department of State. The Mission needs to document its financial management system in accordance with DoD Financial Management Regulation, DoD 7000.14-R, in order to inform its personnel of the financial procedures and practices at the Mission. In addition, a documented financial system will greatly assist in the orientation of new employees that may be dealing with financial matters at the Mission.

Delegation of Funding Authority. Responsible Mission personnel did not properly delegate authority to the individuals responsible for DoD fund control. DFAS guidance for controlling funds is DFAS-IN 37-1 "Finance and Accounting Policy Implementation," September 1995. DFAS-IN 37-1,

chapter 6, "Program and Budget Authority," requires that administrative control of funds must be delegated in writing to a named individual or position; and the recipient of the funds must accept the delegation in writing. At the time of our review, Mission personnel had not properly delegated funding authority to any individuals that managed the Mission's DoD funds within or outside the Mission.

Mission personnel were not clear which official at the Mission was responsible for delegating DoD fund-control authority. Funding advice documents were addressed to the Defense Advisor, with an attention line to the Administrative Advisor. Because it was unclear to officials at the Mission which DoD official was responsible for the funds, neither the Defense Advisor nor the Administrative Advisor delegated fund control responsibility. According to Washington Headquarters Services, the funding advice documents go to the senior Defense official at an organization who should then delegate fund-control responsibility down to the appropriate budget official. In this case, the senior Defense official is the Defense Advisor who should delegate fund-control responsibility, in writing, to the budget officer. Delegation and acceptance of fund-control responsibility, in writing, is required and is an essential part of accounting controls. In order to have proper accountability, the Mission needs to properly delegate fund control for the DoD funds.

Control of Financial Documents. The Mission did not have adequate control over its financial (commitment and obligation) documents because the Mission personnel did not properly assign and track document control numbers. The Mission has a loosely established, but undocumented, procedure for assigning control numbers to all financial documents; however, the assigning and recording of the control number is irregular and unreliable. Although Mission personnel keep some ledgers of control numbers, the ledgers are not maintained regularly, and cannot be relied upon. The Mission had duplicate, missing, and non-sequential control numbers in its records. For example, in FY 1997 the Army, who records obligations for the Mission, had received a financial document with control number 16. However, the Army did not have documents for control numbers 1 through 15. In addition, the ledgers that were developed were maintained by only one person. When that person was on leave, in training or in travel status, the ledgers were often ignored. Therefore, commitments that were established during such a time period were not always recorded by Mission personnel. The use of a complete, sequential numbering system is a basic accounting control used to track commitments, obligations, and disbursements.

Timing of Obligations. The Mission requested obligation of funds by the Joint Administrative Services, Brussels much too early in the process for maintenance and repair type projects. As a result, those funds have not been used for the last 2 fiscal years, and could have been used on other projects at the Mission or used by other DoD components.

Funds for maintenance and repair projects were improperly obligated. DFAS-IN 37-1, chapter 9, "Obligations and Recoveries," provides guidance on establishing obligations and states that non-severable contracts for one time occurrences should not be obligated until the contract for the full amount is

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signed. At the time the contract is signed, the current year funds should be used. In addition, contracts that are obligated at the end of the fiscal year, must contain a requirement that the work begins before January 1 of the following fiscal year. The Mission prepared requests for one time maintenance and repair services to be managed and contracted out by the servicing agency for NATO, which is NATO Construction and General Services. The requests were based on a general scope of work and preliminary cost estimates. In addition, requests for bid were never sent to contractors nor were start dates specified. However, Mission funds were obligated based on these preliminary cost estimates. For example, the Mission funds were obligated too far in advance for the following projects.

- o In FY 1995, \$110,000 was obligated for a bathroom renovation project. As of October 1996, NATO Construction and General Services had not selected a contractor for the project and the construction start date was unknown.
- o In FY 1995, \$150,000 was obligated for an electrical upgrade project to NATO Construction and General Services that, as of October 1996, had not been started. The project was subsequently found to be beyond the capability of NATO Construction and General Services.

The funds for these projects should not have been obligated based on preliminary estimates. The actual cost could significantly change from the preliminary estimates, resulting in an over obligation of funds or a need to request additional funds. Also, the funds were obligated too early in the process and could have been used for other current projects rather than being held in the Mission's accounts for years. Appropriate Mission staff members need to be thoroughly trained in financial management.

Certification of Funds Availability. The Mission's DoD funds were being certified for availability by either unauthorized individuals or individuals without sufficient knowledge of the status of funds available. Prior to our arrival, Army personnel were certifying funds availability for DoD funds without properly delegated authority. After we began our review, the Army personnel discovered that they were not authorized to certify funds availability and returned the function to the budget officer at the Mission. However, the Mission had never delegated the authority to the budget officer. In addition, the budget officer did not have sufficient knowledge of the total DoD funds available, because the budget officer did not maintain complete records or ledgers, or keep copies of documentation. In order to obtain the fund balance, the budget officer would either use the balance from the last monthly statement or contact the Army which would provide the budget officer the balance as of that date. Neither of these methods covered transactions in process or considered any possible deobligated amounts. The Mission never had an accurate picture of the total DoD funds available, except on the first day of each fiscal year. When funds are certified as available, without sufficient knowledge of the actual funding balance, the potential exists for an Antideficiency Act violation or that all available funds may not be used by the Mission. If the Mission does not need all of its funds and the balance is not reprogrammed, the funds are lost to DoD.

Timely Submission of Vouchers. The Mission did not enforce the requirement for timely submission of travel vouchers and did not have a requirement for the timely submission of representational (expenses from diplomatic meetings) and petty cash vouchers. Therefore, Mission personnel did not pursue overdue claims on Mission funds, which resulted in an inefficient use of funds. DFAS-IN 37-1, chapter 28, "Analysis Review and Reconciliation," requires an agency to age its travel documents; and that settlement vouchers should be filed within 15 days of travel completion. Although the Mission's travel orders state that vouchers must be filed within 7 days of the traveler's return, Mission personnel did not monitor outstanding travel orders and pursue individuals who had not filed their vouchers in a timely manner. DFAS-IN 37-1 states that it is management's responsibility to insure prompt settlement by travelers. During our review, we identified travel vouchers that were outstanding for time periods from 2 months to 4 years. The Mission did not have any administrative procedures to enforce timely submission of vouchers. Even after 1 to 4 years, these individuals were allowed to file their vouchers late without administrative action being taken against the individuals. In addition, representational vouchers were at times filed 4 to 6 months after the event was held. When obligations are left unliquidated, any excess funds resulting from an over obligation may be lost. Also, if additional funds are needed, the funds must come from the current fiscal year. The Mission needs to closely track and enforce voucher submission in order to put its funds to the best use.

Reconciliation of Accounts. The Mission's budget officer did not regularly reconcile DoD fund obligations with matching disbursements, as required by DoD regulations. However, since second quarter FY 1995, the budget officer did perform some reconciliations for travel and representation funds. DFAS-IN 37-1, chapter 28, states ". . . complete and timely reconciliations are essential to ensure the integrity of accounting records and to provide accurate reporting." Without regular reconciliation, obligations can be left outstanding for years. Funds that could be deobligated but are beyond their period of availability cannot be reprogrammed and put to better use.

The Mission's budget officer did not use Army financial reports to reconcile and correct the Mission's accounts. The Army's Regional Finance and Accounting Office, Kaiserslautern, produces monthly reports that identify unliquidated DoD obligations by fiscal year, object class, and obligation number. The Mission's budget officer should have obtained and used the reports to reconcile the Mission's accounts in accordance with DFAS-IN 37-1. During FY 1996, Army personnel made adjustments of about \$1.4 million to the Mission unliquidated obligations for FYs 1992 through 1995. As part of the research, Army personnel contacted personnel at Regional Administrative Management Center, Paris to obtain confirmation of any disbursements made by them on behalf of the Mission. Army personnel determined that \$1 million of the \$1.4 million of adjustments were needed because disbursements had been made by the Regional Administrative Management Center, Paris for the Mission; but the transactions had not been recorded by the Army. As of September 30, 1996, the Mission still had about \$2.73 million in unliquidated obligations applicable to FYs 1992 through 1995. The Mission needs to investigate the \$2.73 million of unliquidated obligations remaining on the books for the 4 year period. For

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those obligations that have been disbursed, corrections should be made to clear the records. In addition, any excess obligations should be deobligated. The Mission's budget officer should review, at least monthly, Army financial records to ensure that obligations and disbursements are valid and proper. Failure to properly control funds results in the loss of resources for the Mission or DoD.

Missions Administrative Role Vis-a-Vis Other Organizations. The Mission's financial managers did not have a clear understanding of the relationship and interaction between the Mission and the Army and the Department of State organizations that provide financial services and support to the Mission. Necessary documents and information were not always exchanged between the organizations. As a result, the Mission did not have accurate and timely financial information and had no assurance that all funds had been properly recorded, obligated, and liquidated. The Mission needs to set up procedures that insure all proper financial information is communicated between itself and the organizations that provide financial services. The Mission also needs to establish procedures to review financial reports to ensure information is correct and timely and to investigate and correct any deficiencies.

Roles. Mission personnel did not thoroughly understand their role or the roles of the Army and the Department of State in the fund-control process. The role of the Mission's budget officer should have been to manage and control the Mission's operational funds. The U.S. Army, Europe organizations (the 80th Area Support Group and the Kaiserslautern Regional Finance and Accounting Office) record the obligations and disbursements for the Mission's DoD funds. The Joint Administrative Services, Brussels and the Regional Administrative Management Center, Paris record obligations and disbursements for the Mission's Department of State funds. The Regional Administrative Management Center also makes disbursements for DoD funds when needed. However, the Mission personnel did not adequately coordinate with the Army and the Department of State to determine that all aspects of proper fund control were covered.

Mission personnel often assumed that certain fund control aspects were handled by Army and Department of State personnel, who were only performing record-keeping functions. For example, the Mission's budget officer did not reconcile accounts or keep internal ledgers because he was told by the Administrative Advisor not to perform these functions. It was the Administrative Advisor's understanding that the Army did all the Mission's DoD fund accounting. However, the Army was only required to record obligations and disbursements furnished to them; and had no way of determining whether the information was current, complete, and accurate. The Mission did not effectively coordinate with the Army and the Department of State on their financial activities, which resulted in incomplete and incorrect information, possible Antideficiency Act violations, or funds that were wasted and could have been better used. The Mission needs to improve coordination with the Army and the Department of State to ensure proper fund control. The functions, duties, and responsibilities of all involved organizations should be agreed upon by all parties and documented.

Document Flow. The communication and document flow between the Mission, the Army, and the Department of State was deficient and led to incomplete and incorrect information. Therefore, the Mission staff could not accurately control its funds. During our review, we discovered that when the Department of State made a disbursement against a DoD fund cite, the documentation was sent from the Joint Administrative Services, Brussels to the Regional Administrative Management Center, Paris then to DFAS, Indianapolis, and finally to the Kaiserslautern Regional Finance and Accounting Office to be recorded as an official disbursement. The entire process takes from 4 to 6 months and, although the disbursement occurs at the beginning of the process, the official recording of the disbursement does not occur until the end. Instead of determining why the obligations were still unliquidated, the Mission administrative personnel accepted that the system was not timely and that sometimes information was misplaced. Without a properly defined system, users cannot determine if they are adequately performing their functions and ensuring fund control. The Mission should thoroughly review and document the accounting systems and document flow to alleviate confusion between the Mission, the Army, and the Department of State.

Cost Sharing of Operations. DoD and the Department of State do not have a formal agreement for sharing the cost of the operation of the Mission. The Mission is an integrated operation, funded and operated by DoD, the Department of State, the U.S. Information Agency, and the Federal Emergency Management Agency. We were informed that the cost for general operation of the Mission is shared 65 percent DoD and 35 percent Department of State. However, the Mission could not provide a formal memorandum or agreement that documents the portion of funding each agency is responsible for, and explains the rationale behind this decision. In addition, the areas that are eligible for shared funding have not been defined. A formal cost sharing agreement that is coordinated with, and agreeable to, all agencies involved needs to be established. We believe the Mission should not be able to circumvent the formal cost-sharing agreement, once established, without written modification by the agencies.

Mission personnel did not apply the cost-sharing percentage consistently. We reviewed some jointly funded areas such as personal service contracts and facility remodeling contracts and found discrepancies in the cost sharing. Mission officials stated that if the Department of State does not have funds available, DoD often contributes additional funds. No official study of the cost sharing has been performed.

The cost of the personal service contracts was not always jointly funded. For example, during FY 1996 the Mission had four personal service contracts for conference service assistants that serviced the entire Mission. We were informed by Mission personnel that DoD and Department of State funded the personal service contracts on a 65/35 percent cost share. However, two of the four personal service contracts were charged 100 percent to DoD. Mission personnel could not explain the reason for this discrepancy. Later, after we informed Mission personnel of this discrepancy, they indicated that the costs had been adjusted.

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In addition, remodeling and repair costs are not always funded equitably by DoD and the Department of State. For example, contract S4-FA-2634, September 29, 1992, for the refurbishing of a total of 13 offices at the Mission, was funded entirely by DoD.

Inconsistent funding of the Mission impacts the ability of the Mission to effectively manage its resources, budgets, and long term plans. It can also create a situation that allows circumventing one agency's requirements by funding a particular item through the other agency. An official memorandum needs to be developed that indicates the portion of funding each agency is responsible for, as well as defining items that are jointly funded.

Corrective Actions Taken. We identified numerous actions needed to implement adequate control over the Mission's financial operations. The Mission is in the early phases of developing and implementing financial management policies and procedures, and developing a formal cost sharing agreement. At the Mission's request, actions have been taken to cancel agreements and deobligate funds for the following maintenance and repair projects: Agreement S-BE200-95-H-0139, Bathroom Renovations and Agreement S-BE200-95-H-0146, Electrical Upgrade.

Management Controls Over Contracting

The Mission's control over its functions in the contracting process was inadequate. The Mission is responsible for identification of needs and contract oversight while the Joint Administrative Services, Brussels has procurement and contracting officer authority and responsibility for the Mission. The Mission had no documented policies or procedures governing its contracting functions, and Mission personnel responsible for the Mission's part of the contracting functions were not adequately trained. Also, Mission and Joint Administrative Services, Brussels personnel did not adequately coordinate to ensure that contractual actions were proper and that the Government's interests were adequately protected. As a result, Government funds were improperly obligated and the Government's interests may not have been adequately protected.

Policies and Procedures at the Mission. The Mission had no documented policies or procedures to guide employees in the contracting process from identification of need and contract oversight. During the audit, we noted a lack of documented review and approval processes for projects and their milestones. In addition, maintenance and repair project files were not consistently maintained and documented. Mission officials had no assurance that contracts and projects had met all requisite approvals, or that projects had been accomplished in accordance with what the Mission thought it had contracted for.

Review and Approval. Project documentation at the Mission did not always contain evidence of management approval or supervisory review of the Mission's deputy operations officer's efforts during the contracting process. The Mission's deputy operations officer is responsible for developing and

monitoring maintenance and repair projects at the Mission. However, the deputy operations officer could not produce written documentation of the Mission's role in the contracting process; and he did not fully understand the entire contractual process. Without documented processes and procedures, including appropriate oversight, the Mission has no assurance that projects have been properly approved, adequate funds are available, projects progress in a timely manner, or that projects are being carried out in accordance with contract specifications. In addition, the Mission does not use a standard requisition form to initiate contracts and control the commitment and obligation of funds. DoD organizations use a Purchase Request and Commitment form for the purchase of supplies and services. This form requires signatures from the initiating official, fund certifier, supply officer, and final approval of the commanding officer prior to the initiation of fund obligation. Use of a standard requisition form would indicate appropriate approvals, separation of duties, and good management controls. Current Mission procedures require that the Mission's deputy operations officer prepare a memo to the Joint Administrative Services, Brussels contracting officer, requesting that he initiate a contractual action for the project on behalf of the Mission. The memo is routed through the Mission's budget officer who certifies fund availability for the project. The Mission had no requirement that a senior Mission official sign the contract request indicating that the project is valid. The Mission should institute procedures for using a form similar to the Army Purchase Request and Commitment form indicating appropriate levels of approval and certification of funds availability.

Maintenance and Repair Project Files. The Mission did not maintain adequate maintenance and repair project files. Mission files did not contain an index that could be referenced to determine whether all relevant documentation was contained in the files. For each project, the Mission should maintain a file that contains a copy of the contract, obligating documents, project authorization, reviews of contractor performance, invoices, proof of payment, and other relevant documentation. Mission files should contain documents that are consistently filed in the same order within each file to ensure that the file is complete and to facilitate monitoring contract and project progress.

Training of Mission Personnel. The Mission has not adequately trained personnel to properly accomplish its role in the contracting function. The Mission's deputy operations officer is responsible for monitoring and directing the Mission's contracting functions from inception to completion. However, he had insufficient formal Government contracting training to carry out his duties. The officer was not aware of the time constraints on the use of obligated funds and was not aware of the necessity for, or the development of, specific and measurable contract specifications. Finally, the officer was unaware when, or even if, contracts had been paid. Mission personnel need to be trained in the Federal contracting process to ensure that funds are committed, obligated, and expended properly.

Coordination. The Mission's deputy operations officer and the Joint Administrative Services, Brussels contracting officer did not adequately coordinate their actions regarding contracting for the Mission. Mission and Joint Administrative Services, Brussels personnel did not fully understand the unique requirements for contracting with NATO Construction and General

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Services. In addition, contracts with NATO Construction and General Services were issued with improper contract specifications. Finally, Joint Administrative Services, Brussels was not notifying the Mission when differences existed between funds certified and funds needed to procure supplies or services. As a result, the Mission improperly requested obligation of funds preventing it from making efficient use of its available funds. The Mission and Joint Administrative Services, Brussels should improve coordination to ensure contracts are valid and funds are obligated correctly.

Understanding the Contract Process. Misunderstandings by the Mission and the Joint Administrative Services, Brussels about the funding requirements of NATO Construction and General Services caused improper obligations of Mission funds. The Mission believed that NATO Construction and General Services required the obligation and payment of funds at the time the project was initially discussed. However, during preliminary discussions, NATO Construction and General Service only required assurance that sufficient funds were available for the proposed project. NATO Construction and General Services does not require payment of funds until the scope of the project is definitized, a contractor selected, and the contract price is agreed upon. Because the Mission and the Joint Administrative Services, Brussels did not fully understand the contracting requirements of NATO Construction and General Services, funds were obligated based on preliminary agreements that should have been for project commitment only. The agreements were treated as contracts but did not contain all the provisions of an executable contract document. The Mission should coordinate with the Joint Administrative Services, Brussels contracting officer to develop a means of assuring NATO Construction and General Services of project viability without officially obligating the funds. The Mission should coordinate with NATO Construction and General Services in order to develop a written guide on their contracting procedures and requirements.

Project Specifications. Project specifications contained in Mission agreements (contracts) with the NATO Construction and General Services organization, responsible for all maintenance and repair within the NATO compound, were vague and unenforceable. This occurred because the deputy operations officer furnished the contracting officer at Joint Administrative Services, Brussels preliminary and general project requirements that were incorporated into project agreements before detailed contract specifications were developed. As a result, the contracting officer prepared agreements that included the preliminary requirements as the definitized specifications. For example, the specifications for the interior renovation work at the Mission included the following, "Existing ceiling light fixtures to be exchanged for units that would provide a brighter light." The same agreement also contained the generic specification, "A common carpeting of distinctive design of the hard wearing "Traffic" manufacture will be installed in the hallways, and offices in need of replacement . . ." The Mission cannot adequately evaluate the work performed by contractors when specifications are vague and incomplete. The Government abandons control of projects when contractors are free to perform as they see fit rather than in accordance with contractual requirements. Further, the Government has no assurance that it has received "value for money" when it

does not control the end result of the contract. The Mission should establish procedures to ensure that detailed and valid specifications are written for all procurements of supplies and services.

Fund Availability. The Joint Administrative Services, Brussels did not have a procedure for notifying the Mission when the dollar amount for procurements was over or under the amount certified as available by the Mission. Mission management's operational effectiveness could be impacted if the resulting funds discrepancy occurs at the end of the year. Procurements requiring more funds than certified available by the Mission could result in an Antideficiency Act violation. Unless corrected, procurements requiring less funds than certified available by the Mission will result in the loss of available funds. The Mission should coordinate with the Joint Administrative Services, Brussels to ensure procedures are implemented to notify the Mission of changes in the amount certified as available by the Mission.

Corrective Actions Taken. The Mission has drafted contracting policies and procedures, and is in the process of coordinating them with the Joint Administrative Services, Brussels. The Mission's deputy operations officer has completed formal Governmental Contract Training. The Mission, Joint Administrative Services, Brussels and the NATO Construction and General Services have begun developing procedures to correct the problems of contracting for services and to provide for correct and timely obligation of funds. The Joint Administrative Services, Brussels has also implemented procedures to notify the Mission of differences in the amount of funding certified by the Mission and the amount required for obligation of funds.

Management Controls Over Time and Attendance

The Mission's general administrative instructions regarding time and attendance policy were not adequate for the purposes of accurately recording and controlling official time and attendance. Time and attendance policy was not written in sufficient detail to promote uniformity and minimize the opportunity to submit false individual time and attendance records. As a result, some Mission employees submitted and certified incorrect time and attendance reports.

Overtime and Compensatory Time. Mission employees required to work beyond their regular duty hours have not always recorded the extra hours on official records. The practice of not recording extra time worked on official Government time and attendance records may be a result of the Mission's overtime policy which emphasizes that, due to budget constraints, ". . . we must continue the existing moratorium on the use of paid overtime except when it results from rostered assignments for Mission Duty or Ministerial Support Duty." The policy further states that Mission employees are encouraged to, ". . . devise alternative methods of dealing with any recurring needs for work beyond 40 hours a week or 8 hours a day." Not requiring employees to record extra hours worked caused employees to unofficially keep track of extra time

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worked, and to later take the time off without recording leave or official compensatory time used. The most egregious case of unrecorded time worked involved one individual with over 400 hours of unofficially recorded compensatory time worked. During the audit, the Office of the Defense Advisor took steps to correct the situation. The Mission should require that its employees record, on official time and attendance records, all time worked. The Mission should also budget and fund any cost for overtime and compensatory time worked. The Mission is instituting a procedure to allow Mission employees to earn "credit hours" so that managers will have flexibility in managing resources without committing to compensatory leave, as proposed during the audit.

Prior Approval and Overtime Budgeting. Not all overtime worked at the Mission was routinely approved or budgeted prior to the actual overtime worked. Also, the required approval forms did not always include all required signatures. The procedures for submitting an overtime claim contained in the Mission's General Administrative Instruction 4-9 "Time and Attendance Policy for Department of Defense Employees," were insufficient for meeting the U.S. Code Title 5, chapter 55 "Pay Administration," subchapter V "Premium Pay." Completion of a "Request for Authorization and Report of Overtime," form was the only guidance provided by the Mission's General Administrative Instruction 4-9. The policy did not state whether prior approval is necessary or how time sheets are to be marked. DoD Financial Management Regulation 7000.14, "Civilian Pay Policy and Procedures" stipulates that each activity is responsible for controlling overtime and making certain the activity has the budgeted funds to pay for the overtime. Controlling overtime and making certain the activity has funds budgeted to pay for overtime worked can be accomplished by requiring the budget officer to budget and track the overtime, and by completing a "funds availability" statement. In addition, the regulation states overtime approval shall normally be done in writing prior to performance of the work. Unauthorized, unbudgeted overtime may restrict the Mission's fund balance and result in personnel not getting compensated for extra hours worked. The Mission should revise General Administrative Instruction 4-9 to include requirement to obtain, and procedures for obtaining, prior approval to work overtime when the requirement is known in advance. Also, procedures for budgeting for overtime should be included in the instruction.

Time and Attendance Summary Reports. The Mission's Department of State personnel do not record time and attendance in accordance with Section 3 of the Foreign Affairs Manual, "Personnel Policy and Administration." Those employees responsible for summarizing time and attendance records had not received formal training on the proper procedures for recording Government time and attendance. Instructions and guidance on the proper Government timekeeping procedures were not used by all Mission employees. As a result, a uniform process for recording and summarizing Mission employees' time and attendance did not exist.

Time and attendance documents and procedures were reviewed for several Mission Department of State sections and the following deficiencies were noted.

- o Each timekeeper section developed its own form for employees to report time and attendance.
- o Individual time sheets were not completed by some employees for each pay period.
- o Supervisors of some reporting sections did not certify summary time sheets.
- o Personnel reported themselves on regular duty when, in fact, they were absent, using previously unofficially recorded compensatory time.
- o Summary time sheets were returned to timekeepers after certification, and prior to transmittal to the appropriate payroll office, which could have allowed the timekeepers to change time sheets without the certifier's knowledge.
- o Timekeepers used inconsistent procedures for adjustments to prior pay periods on time sheets.

Mission employees responsible for summarizing time and attendance reports learned their duties through an informal process of predecessor training. This informal system of training led to inconsistencies and errors in reporting time and attendance. For example, a Mission employee on leave in the U.S. had a family crisis and needed to extend the leave. The individual's time sheet should have been adjusted when the leave extension was granted as either "sick leave," "annual leave," or "leave without pay" status. The timekeeper did not adjust the time sheet and the individual was left on "regular duty" status. The timekeeper was not aware of the current procedures for this situation and was unable to locate applicable time and attendance regulations. We notified the Mission management of the incorrect recording of time and the time sheets in question were corrected. If the timekeeper had been properly trained and knowledgeable of proper timekeeping procedures, the recording of an incorrect time sheet might not have occurred.

Corrective Actions Taken. The Mission has made great improvements to implement adequate control over time and attendance. The Mission has reviewed the credit hour policy, has obtained approval from the various agencies' headquarters to use credit hours at the Mission, and is in the process of implementing the use of credit hours. The Mission has developed and instituted a uniform system for recording and reporting time and attendance that includes the necessary management controls. Overtime and compensatory time are now officially requested in advance and recorded. The policy on time and attendance is almost ready to be issued. The Mission initiated training on time and attendance procedures and developed a policy where all individuals receive consistent formal training in reporting and certifying time and attendance reports. In addition, written time and attendance reporting guidance is being made readily available, including instructions on making time sheet adjustments.

Management Controls Over Personnel

The management controls over personnel in the Mission's administrative organization could be improved to enhance operational efficiency. The organizational structure of the Mission's administrative staff does not have the requisite separation of duties to avoid potential conflicts of interest. Not all position descriptions reflect actual duties performed, or accurately match performance standards. In addition, contractual requirements of personal service contractors working at the Mission were not adequately monitored. Without the proper personnel management control structure, the ability of the Mission's administrative staff to work efficiently and effectively is diminished.

Separation of Duties. The Administrative Advisor's assigned duties do not allow for adequate separation of duties. The Mission's current administrative organizational structure requires authorization for all expenditures and management of funds to be the direct responsibility of the Administrative Advisor. This organizational chain-of-command makes the Administrative Advisor ultimately responsible for planning all Mission expenditures and obtaining the resources to fund the expenditures. Office of Management and Budget Circular A-123, "Management Accountability and Control," June 21, 1995, requires that different individuals should authorize, process, record, and review transactions. The Administrative Advisor should not be responsible for both processing and authorizing expenditures at the Mission. In order to alleviate this problem, the budget officer should provide Mission budget and financial information to the Ambassador (Chief of Mission).

Position Descriptions and Performance Standards. Mission administrative position descriptions do not always reflect actual duties. Also, performance standards do not always match position descriptions and sometimes include requirements that are not measurable or ratable. An overall review of position descriptions and performance standards has not been performed by a personnel specialist from the executive agent, U.S. Army, Europe on a regular basis. Mission administrative personnel are not always assigned duties that are commensurate with their position titles. This may cause inefficient performance of actual duties normally associated with the position titles and may lead to misunderstandings among the staff.

Requirement for a Job Classification Review. Review of the Mission's administrative personnel job classifications revealed that some position descriptions and performance standards included inappropriate and inconsistent duties. The U.S. Army, Europe, Civilian Personnel Operations Center is responsible for servicing DoD personnel at the Mission, but is not performing all tasks as prescribed in the personnel servicing agreement.

Some position description duties and performance standards include duties inappropriate for Government service, and performance standards that are not measurable or ratable or written in sufficient detail. For example, the position description for the Administrative Advisor's secretary includes inappropriate duties for Government service such as accounting and disbursement authority for the Administrative Advisor's personal cash funds. In addition, the

position's performance standards include such non-quantifiable tasks as "repeat only good things about others," "Learn, and help explain to others, the objectives of unpopular actions."

Performance standards for some positions are not written in sufficient detail to reflect actual duties performed. Critical job elements and performance standards for the operations manager and operations officer read almost identical for eight of nine critical job elements. The operations officer, deputy to the operations manager, is expected to have similar duties. However, the operations officer also has distinct and dissimilar responsibilities which are not included in the position's performance standards. These other duties, set forth in the Mission's Administrative Instruction on Delegations, were unknown to the operations officer. The operations officer was delegated the duties of Accountable Property Officer and was primarily responsible for receipt and inspection of services performed on the grounds of the Mission compound.

The U.S. Army, Europe, Civilian Personnel Operations Center provided us the most recent civilian personnel servicing agreement which was signed in 1978. The civilian personnel servicing agreement requires review in order to eliminate outdated provisions. The personnel servicing agreement requires the Civilian Personnel Officer at the 80th Area Support Group (NATO SHAPE Support Group) to conduct classification surveys annually. There is no longer a DoD requirement to conduct annual personnel surveys. However, an overall review and update of all Mission administrative and support personnel position descriptions and performance standards should be done to update position descriptions and develop appropriate performance standards.

Budget Officer. Duties assigned to the budget officer did not correspond with the duties normally associated with that position. The designated duties of the Mission's budget officer include responsibilities for the Mission's: Government housing program, Federal income tax assistance program, parking program, and space/office management program. These administrative duties, not normally assigned to a Government budget officer, reduce the amount of time available to perform the pertinent budget officer duties. Duties such as controlling the Mission's procurement through review of monthly budget reconciliations and funded purchase orders, and establishing documented budget obligations and verifying liquidation actions through coordination with DoD and Department of State resource managers, are not being performed. When pertinent duties of the budget officer are not done, the Mission suffers because timely and relevant financial information is not available for resource allocation decisions. The Mission's budget officer position description and standards should be revised to eliminate activities not related to budget and finance duties.

Personal Service Contracts. The Joint Administrative Services, Brussels personnel officer did not perform contracting officer's representative (COR) duties as assigned in the Mission's personal service contracts. He stated he was not aware of the COR assignment. Further, the COR was not located at the Mission, thus compromising effective performance of the COR duties. As a result, personal service contracts were not monitored to ensure compliance with contract specifications.

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The personnel officer at the Joint Administrative Services, Brussels was not performing the COR duties required by the Mission's personal service contracts. The neglected COR duties include approval to work overtime, performance monitoring, leave approval and certification of the contractor's presence during duty hours for payroll purposes. When asked, the personnel officer was not aware that he was assigned the COR duties for all Mission personal service contracts. The Mission employs 18 personal service contractors. These individuals work in either the conference service area or as secretaries. All personal service contracts include the provision that the Joint Administrative Services, Brussels personnel officer will act as the COR. The individual responsible for COR duties should be someone collocated with the personal service contractors. This would ensure certification of time worked, improve the ability to review and accept actual performance, and make sure contract terms are not exceeded. In addition, personal service contractors hired for part-time work were actually working full-time.

Corrective Actions Taken. The Mission has requested that a personnel review be performed and preliminary actions have been taken. The budget officer's former duties relating to housing, parking, tax assistance, and space management have been reassigned to other staff members. Also, at the Mission's request, the Joint Administrative Services, Brussels modified the personal service contracts to assign the COR designation to the appropriate individuals at the Mission.

Management Controls Over Property

The Mission has not adequately developed and documented procedures to protect its property from potential loss or theft. The person designated as the accountable property officer in the Mission's General Administrative Instruction 8-1 "Master List of Delegations," May 9, 1996, was not aware of his designation nor was he aware of the function's duties and responsibilities. Procedures for making personnel responsible for property under their control have not been developed and implemented. As a result, the Mission has not been able to adequately control its property.

Accountable Property Officer. The accountable property officer at the Mission was not aware of the responsibilities and duties as the Mission's focal point for property accountability. When asked, he stated that he was not aware that he had been designated as the accountable property officer. The Joint Administrative Services, Brussels is the office that is ultimately responsible for the accountability of all Government property at Department of State installations in Belgium. However, the day-to-day control of property is the responsibility of the Mission. The Department of State Foreign Affairs Handbook, section H-221.6-2, "Accountable Property Officer," September 16, 1994, states that the accountable property officer is responsible for:

- o custody, care, and safekeeping of all property under control of the post;
- o the maintenance of all required property records;
- o the accomplishment and reconciliation of physical inventories and the certification of inventory reports;
- o the conduct and documentation of periodic unannounced counts of expendable and nonexpendable property to verify property records; and
- o the reconciliation of discrepancies between property records and physical counts.

Because the designated accountable property officer was not aware of the assigned responsibilities, these duties were not being performed. Property accountability can be greatly enhanced at the Mission if the duties of the accountable property officer are accomplished in accordance with standard Government property regulations. Therefore, the accountable property officer at the Mission should coordinate with the Joint Administrative Services, Brussels in determining Mission responsibilities for its property. The accountable property officer should develop internal policies and procedures to ensure the Mission's property responsibilities are performed correctly and in a timely manner.

Property Accountability. The Mission did not maintain a current inventory of property and equipment and did not have adequate procedures for the accountability of property under the control of Mission personnel. The Mission had inadequate procedures for controlling and tracking property that is moved within or taken outside the Mission compound. Personnel were not required to report the movement of property. This lack of control impacts the Mission's ability to maintain property accountability. The annual Joint Administrative Services, Brussels inventory and reconciliation of Mission property has, in recent years, shown discrepancies. The Joint Administrative Services, Brussels FY 1996 annual inventory of Mission property disclosed that, among other items, two paper shredders could not be located. It was later determined that one shredder had been loaned to another U.S. organization at NATO while the other shredder had been sent for repairs. If proper hand-receipts had been completed by Mission personnel and Mission property records had been properly posted, the location of the shredders would have been known. In addition, Joint Administrative Services, Brussels personnel stated that items have been found within the Mission compound that were never bar-coded and were not included in the Mission's property inventory. Each accountable property item should be hand-receipted to an individual. The Mission should prepare and maintain a perpetual inventory list that shows the item, its location, its serial number (if any), its bar-code number, and the person responsible for it. The Mission must develop procedures to ensure accountability of property by location and person within the Mission. Procedures should also include accountability for property removed from the Mission compound.

Corrective Actions Taken. The Mission, in conjunction with Joint Administrative Services, Brussels has developed, and is in the process of instituting, additional property procedures and policies. The additional procedures will include an internal detailed property listing and hand-receipt procedures for the Mission. In addition, the property will now be hand-receipted to individuals.

Management Controls Over Petty Cash

The Mission did not properly control its petty cash fund. A Mission employee was designated as a sub-cashier of the Joint Administrative Services, Brussels petty cash fund, in order to have cash available at the Mission. The Mission's funds were not properly controlled because the Mission did not follow established Department of State guidance or develop its own management control procedures. Even though the petty cash fund was a Department of State fund, both DoD and Department of State appropriations were used for purchases. In addition, the Mission's sub-cashier for petty cash was not properly trained. The Mission did not adequately perform the following basic petty cash functions.

- o Perform all required monthly reconciliations.
- o Number voucher control documents accurately.
- o Record and track petty cash vouchers on a general ledger.
- o Keep complete and accurate documentation.
- o Protect the combination to the safe.
- o Require prior supervisory approval for expenditures.
- o Require claimants signature on petty cash claims.
- o Require cash recipient to sign an acknowledgment.
- o Require the timely submission of claims.

As a result, the Mission had no assurance that petty cash funds were controlled and safeguarded. Further, the lack of control over the petty cash account created perceptions of wrong-doing among Mission employees. Because the Joint Administrative Services, Brussels already provides cashier services and a petty cash function both at the Mission and the Joint Administrative Services, Brussels offices, the Mission should have neither its own sub-cashier nor a separate petty cash fund.

Corrective Actions Taken. Due to the low volume of transactions in the Mission's petty cash fund and the availability of the Joint Administrative

Services, Brussels cashier at the Mission, we questioned the need for a separate petty cash fund at the Mission. The Ambassador to NATO decided to remove the Mission's petty cash fund and use the Joint Administrative Services, Brussels petty cash cashier instead. The Mission no longer operates its own petty cash fund but the Mission understands that it needs to establish internal procedures for properly using the Joint Administrative Services, Brussels cashier.

Management Controls Over Representation Funds

The budget officer did not submit DoD representation fund quarterly reports as required by DoD's Washington Headquarters Services. Quarterly schedules have not been filed since the fourth quarter of FY 1995. Each quarter the Mission is required to submit a report of expenses to the Director of Budget and Finance at Washington Headquarters Services, for representational fund events, along with supporting documentation such as paid voucher, receipts, and prior approval signatures. The representational fund expenditure schedules are used by the Washington Headquarters Services as a means of tracking dollars spent so that the representational fund limit is not exceeded. Therefore, the Mission should enact procedures that ensure timely submission of representational fund expenditure reports to the Washington Headquarters Services.

Corrective Actions Taken. The Mission completed and sent copies of the DoD representation fund quarterly reports for FY 1995, FY 1996, and first quarter FY 1997 to Washington Headquarters Services in March 1997. The Mission plans to include procedures in their financial management procedures to ensure timely submission of future DoD representation fund quarterly reports.

DoD Oversight

DoD did not provide sufficient oversight of the Mission's DoD interests in its financial and administrative operations because no DoD organization has either assumed or been clearly assigned the oversight function. The Mission did not adequately evaluate management controls applicable to DoD interests at the Mission, nor did the Mission provide management control annual assurance statements to DoD. As a result, DoD was not aware of the weaknesses in accountability and management controls over the DoD resources used for administrative functions at the Mission.

DoD Oversight Responsibility for the Mission. The Mission receives little or no DoD management oversight because no DoD organization has been clearly assigned, or has accepted responsibility for the management oversight function. Lack of oversight of the DoD administrative interests at the Mission have

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contributed to the inconsistent and inadequate administrative controls at the Mission and also contributed to the Mission's material management control weaknesses.

No DoD directive clearly delineates administrative oversight or responsibility for ensuring that management controls for the DoD interests in the financial and administrative operations at the Mission are effective and in compliance with Federal requirements. DoD Directive 5105.20, "Defense Representation, United States Mission to the North Atlantic Treaty Organization and Europe," November 16, 1972, reflects the responsibilities and relationships of various personnel assigned to the Mission and those of the principle staff assistants to the Secretary of Defense. The directive deals with functions of the U.S. Ambassador to NATO and those of the Defense Advisor. The directive states that administrative and logistical support for the Mission will be provided by U.S. European Command, NATO/SHAPE Support Group, and the U.S. Embassy, Brussels. However, the directive does not clearly assign responsibility for DoD oversight of the administrative functions at the Mission. A DoD directive is needed to clearly assign administrative operational oversight for DoD interests at the Mission.

The two DoD organizations that consistently interface and interact with the Mission, Washington Headquarters Services, and the Office of the Under Secretary of Defense for Policy, have not provided administrative and management control oversight for DoD interests at the Mission. Washington Headquarters Services, which provides the majority of the DoD operational funds for the Mission, is a service organization only. As such, Washington Headquarters Services provides assistance to many DoD organizations, but it has no supervisory and oversight responsibility to any of the organizations it services. The Office of the Under Secretary of Defense for Policy is organizationally responsible for the DoD interests at the Mission. The Office of the Under Secretary of Defense for Policy provides DoD NATO policy, and provides many of the DoD staffing positions at the Mission. In keeping with its organizational position, the Office of the Under Secretary of Defense for Policy should be clearly assigned responsibility for the oversight of the DoD administrative interests at the Mission. The Office of the Under Secretary of Defense for Policy, in coordination with the Ambassador, Department of State, and Washington Headquarters Services, should develop and implement a plan to provide guidance and oversight for the DoD administrative interests at the Mission. In carrying out these responsibilities, the Office of the Under Secretary of Defense for Policy should obtain assistance as required from other DoD organizations such as Washington Headquarters Services and perform periodic reviews.

Management Control Program. The Mission did not have a viable management control program in place to fully identify and implement specific procedures necessary to ensure good management controls required by the Office of Management and Budget Circular A-123. The Mission used a Department of State management control checklist and procedures to evaluate its management controls. Neither the Department of State checklist nor procedures implemented by the Mission detected the problems noted in this report. The Mission indicated "not applicable" on the checklist for any Department of State

funded operations at the Mission for which the Joint Administrative Services, Brussels provided some service. The Mission failed to recognize its responsibility for management controls for areas for which the Joint Administrative Services, Brussels provided some service. The Mission needs to tailor the checklist and its procedures to fit the unique operational requirements of the Mission. The Mission needs to train personnel in the Management Control Program, and institute procedures to ensure a viable management control program is in place to adequately protect Government resources from fraud, waste, and mismanagement.

Management Control Annual Assurance. The annual management statement of assurance addresses only Department of State operations at the Mission and is forwarded only to the Department of State. Although the Mission is considered a Department of State organization, it is an integrated organization combining DoD, Department of State, U.S. Information Agency, and Federal Emergency Management Agency. The majority of the Mission's administrative resources are DoD funded. However, the management controls over the DoD resources are not assessed annually. DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires each DoD organization to establish a management control system which must address all administrative activities involving funds, property, and other assets for which managers are responsible. DoD Directive 5010.38, also requires, "Each DoD Component shall submit to the Secretary of Defense, based on the execution of their Management Control Program, a statement of assurance that indicates whether or not the Management Control systems meet the program standards, goals, and objectives of sound and effectively implemented Management Controls." Assurance that management controls are operating effectively and as designed cannot be ascertained because the Mission does not complete and forward an annual evaluation to a DoD oversight organization. The Mission should enact procedures to ensure annual completion of the management control assurance statement, and its submission to the appropriate DoD organization.

Corrective Actions Taken. The Mission sent a copy of its FY 1996 annual management statement of assurance to DoD, and plans to send future annual management statements of assurance to DoD.

Conclusion

The joint nature of the Mission poses unique challenges and the problems identified by this audit were probably longstanding. Because of the mix of different agency personnel and the frequency of personnel turnover at the Mission, it is essential to have well-documented policies and procedures. Mission officials need to improve the management controls over administrative functions at the Mission. Also, DoD needs to provide oversight of the Mission's use of DoD funds and resources.

During the audit, we met with the Ambassador to NATO and other DoD and Department of State officials to discuss preliminary findings and

recommendations. The Ambassador acknowledged our preliminary findings and recommendations over the administrative operations at the Mission, and directed Mission personnel to immediately begin implementing recommended changes. The changes should improve the administrative operations of the Mission and institute the management controls necessary to ensure that Government resources are adequately safeguarded. The Ambassador's personal involvement, support, and cooperation in this audit effort is recognized; and effective implementation of the audit recommendations should ensure that the operation of the Mission's administrative functions will continue to improve in the future.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments, we revised Recommendation 1.n. to clarify that the budget officer provide Mission budget and financial information to the Chief of Mission.

1. We recommend that the U.S. Ambassador to the North Atlantic Treaty Organization:

a. Develop and document overall policies and procedures over the administrative operations at the Mission that include, but are not limited to, required approvals, required forms, and management controls. The administrative areas should include, but are not limited to, finance, contracting, time and attendance, personnel, property, petty cash, and representation funds. Establish a policy for the systematic review, at a minimum every two years, of all Mission policies and procedures and update as necessary to reflect changes in application laws and regulations.

Management Comments. The Mission concurred. The Mission stated that interim policies for all administrative operations have been implemented and the Mission is in the process of completing final versions of the policies and procedures.

b. Document the financial management system and the duties and responsibilities of the Mission, Department of Army, and Department of State organizations.

Management Comments. The Mission concurred. The Mission stated that it is in the process of documenting the full financial management system and is evaluating Department of State, Department of Army, and Washington Headquarters Services systems and capabilities to satisfy all Mission accounting requirements.

c. Establish procedures for delegation and acceptance of DoD fund authority.

Management Comments. The Mission concurred. The Mission stated that the Financial Management Policy Implementing Instruction establishes procedures for the delegation of DoD funds from the senior Defense Official to the Financial Management Officer. Washington Headquarters Services provided unsolicited comments, which stated that all funding authorizations for the Mission were input into the automated Program Budget Allocation System to the attention of the Defense Advisor.

Audit Response. Washington Headquarters Services' comments relate to fund controls external to the Mission and not to the absence of controls for internal delegation of fund authority at the Mission.

d. Develop and implement sequential numbering systems for controlling and tracking financial documents.

Management Comments. The Mission concurred. The Mission stated that sequential numbering systems have been reviewed and updated. Washington Headquarters Services provided unsolicited comments which stated that the Program Budget Allocation System automatically creates sequentially numbered funding documents.

Audit Response. Washington Headquarters Services' comments relate to sequentially numbering documents external to the Mission and not to numbering of Mission-generated financial documents.

e. Develop a system to track and monitor the commitment, obligation, and disbursement of the Mission's DoD funds and train the budget officer in its use. The system should allow the Mission's budget officer to be able to accurately certify funds are available. Request the Army or Department of State to assist as necessary.

Management Comments. The Mission concurred. The Mission stated that it is in the process of reviewing systems to control commitments and monitor obligations and disbursements. The Mission is coordinating with the Department of State, Department of Army, and Washington Headquarters Services to identify the best system to track and monitor Mission funds.

f. Establish time frames for submission of travel, representational, and petty cash vouchers and monitor compliance by a voucher reporting system to Mission officials.

Management Comments. The Mission concurred. The Mission stated that time frames have been established for submission of vouchers. The Mission stated that it has established a management review process for overdue vouchers.

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g. Reconcile the Mission's obligations and disbursements monthly and determine the validity of the outstanding obligations. Take appropriate action to liquidate or deobligate funds and coordinate with the Army and the Department of State as needed.

Management Comments. The Mission concurred. The Mission stated that it is in the process of establishing a monthly reconciliation process with the Army and the Joint Administrative Services, Brussels.

h. Develop a written cost sharing agreement for Mission operating costs in coordination with DoD and Department of State. Any modifications to the cost sharing agreement should be approved by at least the Ambassador.

Management Comments. The Mission concurred. The Mission stated that a proposed cost sharing formula for Mission functions is being coordinated with all Mission-participating Federal agencies. The Mission stated that the specific terms of the cost sharing formula will be included in a memorandum of agreement. Washington Headquarters Services provided unsolicited comments which stated that the development of a per capita cost sharing agreement for the Mission on a fair and equitable basis is a necessity. Washington Headquarters Services also stated that the audit report understates the Department of State's share by deleting the compensation cost for direct hire personnel.

Audit Response. Washington Headquarters Services' comments address equitability of the current cost sharing method used. This report addresses the inconsistency with which cost sharing percentages were applied. We stated that a formal cost sharing agreement needs to be established between the agencies.

i. Provide immediate training to Mission personnel involved in financial and contracting areas and ensure ongoing training for new personnel and to update personnel for changes in the financial and contracting areas.

Management Comments. The Mission concurred. The Mission stated that Mission personnel with financial and procurement responsibilities have completed formal training courses and additional training will be scheduled as required.

j. Use an official purchase request and commitment form (similar to the Purchase Request and Commitment, Department of Army Form 3953) for initiating contractual actions with appropriate levels of approvals and certification of funds availability.

Management Comments. The Mission concurred. The Mission stated that as of June 1997 it began using standardized purchase request forms.

k. Improve maintenance and repair project files that are indexed and contain a checklist with all relevant contract documents for monitoring the progress of the project.

Management Comments. The Mission concurred. The Mission stated that files have been updated and future files will be maintained in accordance with a standard checklist.

l. Require specifications and purchase descriptions to be written in detail for all requests for supplies and services.

Management Comments. The Mission concurred. The Mission stated that it has established a service agreement with the Joint Administrative Services, Brussels to ensure specifications and purchase descriptions are written in sufficient detail.

m. Require all Mission employees to receive immediate training on time and attendance policies and procedures and the fundamentals of management control. The Mission should ensure that new employees are adequately trained in these areas and periodic updated training are provided to all employees as necessary.

Management Comments. The Mission concurred. The Mission stated that time and attendance training for its staff has been conducted and ongoing training will be provided as needed. The Mission also stated that management control training was conducted at the Mission by a U.S. Army, Europe expert.

n. Require that the Mission's budget officer be responsible for providing Mission budget and financial information to the Chief of Mission.

Management Comments. The Mission concurred in principle to the recommendation. The Mission stated that it reassigned all other management functions to other staff members and redesignated the budget officer position as the Financial Management Officer. The Mission stated that the Financial Management Officer will provide monthly budget reports to the Chief of Mission and that the Chief of Mission will resolve any questions concerning the appropriate use of Mission funds.

Audit Response. We revised the recommendation based on the Mission's comments and to clarify our intent that we did not require the budget officer to be reassigned but to provide reports to the Chief of Mission and for the Chief of Mission to be involved in the process. The Mission's comments met the intent of the recommendation and no additional comments are needed.

o. Request and implement the results of a DoD and Department of State personnel review of at least the Mission's complete administrative branch, including the Administrative Advisor's position, and other branches' support positions. The review should address the number, type, and grade of positions needed, position descriptions, and performance standards.

Management Comments. The Mission concurred. The Mission stated that personnel reviews were requested and the Mission will implement the results of the reviews once the final reports are received.

Administrative Functions

p. Review and update all service agreements between the Mission and DoD organizations and the Mission and Department of State organizations.

Management Comments. The Mission concurred. The Mission stated that a review is in process for all of its service agreements.

q. Implement an improved management control program in accordance with the Office of Management and Budget Circular A-123, DoD Directive 5010.38, and the applicable Department of State regulation to include periodic evaluations and tests of controls.

Management Comments. The Mission concurred. The Mission stated that it is in the process of revising the management control program and a policy is being developed.

2. We recommend that the Director, Joint Administrative Services, Brussels prepare designation letters and notify assigned Mission personnel of duties, responsibilities, and restrictions for all of the Mission's contracts that delineates the contracting officer's representative. All Mission personnel assigned the duty of contracting officer's representative should be required to acknowledge receipt of the assignment.

Management Comments. The Director, Joint Administrative Services, Brussels concurred. The Mission stated that the Joint Administrative Services, Brussels prepared contracting officer's representative designation letters and notified Mission contracting officer's representatives of their duties, responsibilities, and restrictions.

Audit Response. The Director, Joint Administrative Services, Brussels provided comments to the Mission who in turn responded to the draft report on their behalf. No additional comments are needed.

3. We recommend that the Under Secretary of Defense for Policy, in coordination with the Ambassador, Department of State, and Washington Headquarters Services, develop and implement a plan to provide guidance and oversight for the DoD administrative areas of the Mission. The plan should provide for periodic reviews in coordination with other agencies. The oversight plan should be institutionalized in a DoD directive that delineates functional areas and organizational responsibilities.

Management Comments. The Under Secretary of Defense for Policy did not provide comments on the draft report. Comments from the Mission were received which stated that oversight can best be accomplished by having an integrated Mission Oversight and Review Plan coordinated with all parties.

Audit Response. We request that Under Secretary of Defense for Policy provide comments in response to the final report.

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Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Administrative Operations at the Mission. We evaluated the Mission's policies, procedures and management controls over administrative operations in the following areas: finance, contracting, time and attendance, personnel, property, petty cash, representation funds, travel, and ministerials. In addition, we reviewed financial transactions and supporting documentation for FYs 1994 through 1996 and selected documentation from FYs 1992 and 1993.

We interviewed Mission, DoD, and Department of State personnel involved with the administrative operations at the Mission, to determine the procedures, policies, and obtain documentation.

In addition, we coordinated the audit with the Office of the Inspector General, Department of State.

Audit Period and Standards. This program audit was performed from May 1996 through February 1997 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. The audit did not rely on computer-processed data or statistical sampling procedures.

Organizations and Individuals Visited or Contacted. We visited or contacted individuals and organizations within the DoD, Department of State, and NATO Construction and General Services. Further details are available upon request.

Prior Audits. No audits on the administrative operations at the U.S. Mission to NATO have been conducted within the last 5 years.

Management Control Program

Office of Management and Budget Circular A-123, "Management Accountability and Control," June 21, 1995, establishes specific requirements with regards to management controls and protecting resources with minimal potential for waste, fraud, and mismanagement. DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Controls. We reviewed the management control program and the management controls over the Mission's administrative operations for finance, contracting, time and attendance, personnel, property, petty cash, representation funds, travel, and ministerials.

Adequacy of Management Controls. We identified material management control weaknesses for the Mission's administrative operations as defined by DoD Directive 5010.38. The Mission management controls over their administrative operations for finance, contracting, time and attendance, personnel, property, petty cash, representation funds, and travel were, and continue to be, insufficient to reasonably ensure that the resources are protected from waste, fraud, and mismanagement. Additionally, the Mission's existing management controls are insufficient to ensure that laws and regulations are followed and that reliable and timely information is obtained, maintained, reported and used for decision making.

The Mission used a Department of State management control checklist to evaluate its management controls. This checklist addressed only Department of State funded operations at the Mission and did not detect any of the problems noted in this report. In addition, the Mission indicated "not applicable" on the checklist for any of the Department of State funded operations at the Mission for which the Joint Administrative Services, Brussels provided service. The Mission did not adequately evaluate management controls applicable to DoD-funded aspects of the Mission, nor did the Mission provide management control annual assurance statements to DoD. Most of the administrative operations deficiencies relate to the DoD-funded portion of the Mission. The Mission did not fully identify and implement specific procedures necessary to ensure good management controls. The material management control weaknesses have been unreported for the past few years. All of the recommendations will correct material management control weaknesses. A copy of the report will be provided to the senior official responsible for management controls in DoD. The finding in Part I discusses the weaknesses.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Policy
Assistant Secretary of Defense (International Security Affairs)
Director, Washington Headquarters Services

Department of the Army

Commander, U.S. Army, Europe
Commander, 80th Area Support Group

Department of State

Ambassador, U.S. Mission to NATO
Assistant Secretary of State, European and Nato Affairs
Director, Joint Administrative Services, Brussels
Inspector General, Department of State

Other Non-Defense Federal Organizations and Individuals

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on National Security
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight

Part III - Management Comments

U.S. Mission to NATO Comments



UNITED STATES PERMANENT REPRESENTATIVE
ON THE
NORTH ATLANTIC COUNCIL

July 1, 1997

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Comments on Draft DoD IG Audit of the US Mission to
NATO (Project No. 6CK-5043.)

Thank you for this opportunity to comment on your draft Audit Report. The audit, performed at my request during a critical period in NATO's transformation, produced constructive recommendations for lasting improvements in USNATO's administrative operations and management controls. I appreciate the highly professional work which Joe Doyle, Deborah Culp, and the other members of your audit team did for us, and ask that you convey my thanks and appreciation to them all.

We concur in all of the recommendations (except in one case, where your proposal differs with recommendations from a recent State Department IG Inspection) and have already implemented most of them. I am pressing forward to implement the remaining recommendations as expeditiously as possible -- subject to necessary coordination. Specific comments on each recommendation, including the status of our implementing actions, are attached.

Concerning the reported management control weaknesses, I share the judgement in your draft report that implementation of your recommendations will correct all of these weaknesses. We have been working hard to accomplish the tasks before us and have made good progress in a number of areas. We will complete the implementation of all the recommendations as soon as we can.

Sincerely,

Robert E. Hunter

USNATO Response to Draft DoD IG Audit Report

The U.S. Mission to NATO's (USNATO) management comments are provided per your request of 23 April on the DoD Inspector General Draft Report On Management Controls of Administrative Operations at the USNATO to the North Atlantic Treaty Organization (project No. 6CK-5043). The U.S. Mission concurs with all findings and recommendations of the audit, subject to a few qualifying remarks. The format of the audit report recommendations was used by USNATO to provide our management comments.

1. We recommend that the U.S. Ambassador to the North Atlantic Treaty Organization:

a. Develop and document overall policies and procedures over the administrative operations at the Mission that include, but are not limited to, required approvals, required forms, and management controls. The administrative areas should include but are not limited to finance, contracting, time and attendance, personnel, property, petty cash, and representation funds. Establish a policy for the systematic review, at a minimum every two years, of all Mission policies and procedures and update as necessary to reflect changes in applicable laws and regulations.

The USNATO concurs with this recommendation.

The USNATO is in the process of developing and updating policies and procedures for all administrative operations. Interim policies have been implemented and the final versions will be published when the coordination process is completed in the first quarter of FY 1998.

- Finance: The drafts of a interim USNATO Financial Management Policy and detailed Financial Management Policy Implementing Instructions are complete. The drafts will be coordinated with the Department of State, Department of Defense, U.S. Information Agency and the Federal Emergency Management Agency. The planned completion date is 30 September 1997.
- Contracting: A comprehensive USNATO Procurement Policy is complete and published. The Procurement Policy includes all aspects of procurement including contracting procedures. This policy was coordinated with the Joint Administrative Services (JAS), which is USNATO's contracting office. The Procurement Policy was completed and implemented on 12 January 1997.
- Time and Attendance: A Time and Attendance Policy for all USNATO is complete. The Policy was coordinated with the supporting personnel offices of the Department of

U.S. Mission to NATO Comments

State, the Department of Defense, U.S. Information Agency, and Federal Emergency Management Agency. The Time and Attendance Policy was completed and implemented on an interim basis on 14 March 1997. (Full coordination is in progress and further refinements may be incorporated.)

- Property: USNATO has implemented a Property Accountability Policy that follows Department of State property control and guidelines. Overall accountability of all U.S. Mission property is the responsibility of the U.S. JAS Inventory Officer. JAS will hand-receipt all USNATO property to the GSO in the USNATO Administrative staff. All USNATO property will be inventoried and bar-coded. This information and the exact location of each item will be recorded on USNATO inventory sheets. Appropriate individuals will be held accountable, by a sub-hand receipt, for all US Government property under their control. The policy for property accountability was completed and implemented on an interim basis on 13 January 1997. (Full implementing procedures are in progress.)
- Petty Cash: A Policy for Reimbursement for Expenditures on Official Business is complete. The policy was completed and implemented on 13 February 1997. The policy includes procedures for using the Joint Administrative Services (JAS) petty cash fund.
- Representation: The existing policy for the use of Representation Funds at the USNATO has been revised to include all reporting requirements and procedures required by the Department of Defense. The revised policy was finalized and implemented on 11 March 1997.
 - b. Document the financial management system and the duties and responsibilities of the Mission, Department of Army, and Department of State organizations.

USNATO concurs with this recommendation.

It is the policy of USNATO to rely on, and utilize to the fullest extent possible, existing accounting systems of USNATO participating Agencies. USNATO is not staffed to accomplish independently all established U.S. Government accounting requirements. USNATO is in the process of documenting the full Financial Management System and is evaluating existing Department of State, Department of the Army, and Washington Headquarters Services systems and capabilities to satisfy all USNATO accounting requirements. The accounting duties and responsibilities of USNATO and supporting Army and Department of State offices will be documented and included in the USNATO Financial Management Policy Implementing Instructions. This policy is planned for completion by 30 September 1997.

c. Establish procedures for delegation and acceptance of DoD fund authority.

The USNATO concurs with this recommendation.

The delegation of Department of Defense funds control must be made formally to the USNATO Financial Management Officer by the senior USNATO Defense Official. The USNATO Financial Management Policy Implementing Instructions establishes that funds authorized in the annual operations budgets of USNATO are under the control of the Financial Management Officer, who is the only authority authorized to approve commitments involving subsequent financial liability. The USNATO Financial Management Officer was appointed Primary Fund Certifying Officer on 6 June 1997. Appointment of an Alternate Fund Certifying Officer at the Army NATO Support Activity, Brussels became effective 13 June 1997.

d. Develop and implement sequential numbering systems for controlling and tracking financial documents.

USNATO concurs in this recommendation.

Sequential numbering procedures have been reviewed, validated, and updated. In the future, sequential numbers assigned to USNATO commitments will be automatically assigned by the automated accounting system being established at USNATO. In the interim, sequential numbers are currently being assigned manually as an essential management control process.

e. Develop a system to track and monitor the commitment, obligation, and disbursement of the Mission's DoD funds and train the budget officer in its use. The system should allow the Mission's budget officer to be able to accurately certify funds are available. Request the Army or Department of State to assist as necessary.

USNATO concurs with this recommendation.

USNATO will utilize to the fullest extent possible the existing accounting systems of the Department of State and the Department of Defense to accomplish the Mission's accounting requirements. A review of off-the-shelf government accounting software packages is in process to identify an automated accounting system the USNATO can use to control commitments and monitor obligations and disbursements. The review is planned to be completed and the system operational by 30 September 1997. The Financial Management Officer and the Budget Assistant will receive training on the selected system. Discussions with the Army, Brussels' (State) Joint Administrative Services, and Washington Headquarters Services (DoD) to identify the best system to track and monitor the commitment, obligation and disbursement of USNATO funds has been on going since March 1997 as a result of this audit recommendation.

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f. Establish time frames for submission of travel, representational and petty cash vouchers and monitor compliance by a voucher reporting system to Mission officials.

USNATO concurs in this recommendation.

Applicable policies and procedures to establish fixed time frames for the submission of vouchers and to establish an escalating management review process for overdue vouchers is included in the Financial Management Policy Implementing Instruction. All outstanding travel vouchers have been submitted for processing and no travel voucher claims exceeded the allowed 15 day filing period as of 30 May 1997. The automated travel system PerDiemAzing is being tested at eight DoD pilot sites. Washington Headquarters Services is one of these sites. USNATO plans to use this system to improve management controls of travel. USNATO plans to implement this automated travel system during the second quarter of FY 1998. All outstanding representation vouchers have been submitted for processing and all claims were current as of 30 May 1997. USNATO's "Policy for the Use of Representation Funds" requires all outstanding representation vouchers to be submitted within ten working days of the representational event. There were no petty cash claims outstanding as of 30 May 1997. USNATO's "Policy for Reimbursement for Expenditures on Official Business" requires all claims to be paid by the Joint Administrative Services cashier from the DOS petty cash fund be submitted within 10 working days of incurring the expense.

g. Reconcile the Mission's obligations and disbursements monthly and determine the validity of the outstanding obligations. Take appropriate action to liquidate or deobligate and coordinate with the Army and Department of State as necessary.

USNATO concurs in the recommendation.

USNATO initiated a review of unliquidated balances with the Joint Administrative Services (JAS) and the Army. A joint review of USNATO's unliquidated obligations by representatives of the Office of the Secretary of Defense (budget analyst) and the Army (accountant) was conducted in February 1997. We are working to establish a monthly reconciliation process and improve the availability of accounting data. In the future, the establishment of an automated accounting system will further enable USNATO to accomplish monthly funds reconciliation and timely reporting of accounting data. An automated accounting system will be operational during the first quarter of FY 1998.

h. Develop a written cost sharing agreement for Mission operating costs in coordination with Department of Defense and

Department of State. Any modifications to the cost sharing should be approved by at least the Ambassador.

USNATO concurs in this recommendation.

It is USNATO policy that cost share guidelines shall ensure that participating Departments and Agencies share the overall costs of the USNATO in a fair and equitable manner. A proposed cost sharing formula for USNATO functions is being coordinated with all four USNATO participating Federal Agencies. The specific terms of the cost sharing formula which will be included in a Memorandum of Agreement. Once this Memorandum of Agreement is signed, any proposed change will require the agreement of the Ambassador and coordination with all participants. The Memorandum of Agreement on USNATO Cost Shares will be implemented on an interim basis prior to 30 September 1997. Meanwhile, a Department of State I.G. Inspection Report of USNATO has recommended that the International Cooperative Administrative Support Services (ICASS) cost sharing system be implemented at USNATO by the beginning of FY 1999. This will also require agreement by Department of State, Department of Defense, U.S. Information Agency and the Federal Emergency Management Agency. While these details are being worked out, costs will be shared in accordance with the USNATO Cost Share Memorandum Agreement starting 1 October 1997.

i. Provide immediate training to Mission personnel involved in financial and contracting areas and ensure ongoing training for new personnel and to update personnel for changes in financial and contracting areas.

USNATO concurs in this recommendation.

USNATO personnel with finance and procurement responsibilities have completed formal training courses. The need for proficiency training will be monitored and needed training will be scheduled as required.

j. Use an official purchase request and commitment form (similar to the Purchase Request and Commitment, Department of Army Form 3953) for initiating contractual actions with appropriate levels of approvals and certification of funds availability.

USNATO concurs in this recommendation.

The need for a standardized purchase request form is recognized and USNATO has adopted the format of the OSD Request for Contracted Advisory and Assistance form (SD Form 419) and OSD Offices Services Request Form (SD Form 474) to improve management controls. The use of these standard formats began on 15 June 1997.

k. Improve maintenance and repair project files that are indexed and contain a checklist with all relevant contract documents for monitoring the progress of the project.

U.S. Mission to NATO Comments

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Reference

USNATO concurs in this recommendation.

Maintenance and repair project files to include sections for justification, specifications and cost estimates is complete. Files have been updated. A check list of contract documents needed for monitoring the progress of a project is included in each file. As of the fourth quarter FY 1997, all new maintenance and repair project files will be maintained in accordance with the checklist and data will be filed by section.

1. Require specifications and purchase descriptions to be written in detail for all requests for supplies and services.

USNATO concurs with this recommendation.

USNATO has established Servicing Agreements under ICASS with the Brussels Tri-Mission Joint Administrative Services (JAS) for these services. All requests for the commitment of USNATO funds are written and fully justified as required by the Procurement Policy implemented on 12 January 1997.

- m. Require all Mission employees to receive immediate training on time and attendance policies and procedures and the fundamentals of management control. The Mission should ensure that new employees are adequately trained in the areas and periodic updated training are provided to all employees as necessary.

USNATO concurs in this recommendation.

Initial Time and Attendance training for USNATO Department of State and Department of Defense staff members was conducted in March and May 1997. It is planned to hold this training on an on going basis. Initial Management Control Training was conducted at USNATO by a Headquarters United States Army Europe expert on 17 June.

- n. Revise the Mission's chain-of-command so that the budget officer has a direct line of responsibility to the Chief of Mission.

USNATO concurs in the objective of this recommendation.

However, a recent Department of State I.G. Inspection, subsequent to the DoD I.G. Audit, determined that the location of this position within USNATO's organizational structure, should not change. But, in keeping with the recommendation of the audit, all duties of this position that involved management functions have been reassigned to other staff members. The Management and Budget Officer position has been redesignated as the 'Financial Management Officer' (FMO). The FMO will provide the Ambassador a monthly Budget Execution Report which

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summarizes the status of USNATO funds starting in the first quarter of FY 1998. In addition, the Financial Management Officer is established, by the new USNATO Financial Management Policy, as the only authority who can approve commitments involving subsequent financial liability. When a situation arises where there is disagreement concerning the appropriate use of USNATO funds, the Financial Management Officer will bring the issue directly to the Chief of Mission for resolution.

o. Request and implement the results of a DoD and Department of State personnel review of at least the Mission's complete administrative branch including the Administrative Advisor's position and other branch's support positions. The review should address the number, type and grade of positions needed, position descriptions and performance standards.

USNATO concurs in this recommendation.

WHS performed a thorough analysis and evaluation of the OSD positions in the U.S. Mission, particularly those in the administrative area. The supervisory structure, organizational alignments, and reporting relationships were included in this review. Since all of these factors impact on the top managerial position, WHS believes that all OSD positions in the administrative area, including the Administrative Advisor, have been reviewed. Upon receipt and review of the final report, USNATO will implement OSD personnel's recommendations. Subsequent to the DOD IG audit, the Department of State Office of the Inspector General reviewed the operations of USNATO to include personnel. A draft DOS inspection report has been issued and is being reviewed. Upon completion of this review and receipt of a final report, DOS recommendations will be implemented by USNATO. Based on final DOS recommendations, further evaluation of the Administrative Advisor's position may be required.

p. Review and update service agreements between the Mission and DoD organizations and the Mission and Department of State organizations.

USNATO concurs in this recommendation.

A review is in process to evaluate all USNATO Service Agreements. The OSD WHS personnel office is evaluating personnel support requirements of USNATO to determine how best to provide USNATO personnel support. Other support provided to USNATO by JAS has been codified with the implementation of ICASS. Since March, USNATO has also been considering further financial management support from the JAS under the Department of State ICASS program, a final determination will be made in the first quarter of FY 1998.

q. Implement an improved management control program in accordance with the Office of Management and Budget Circular A-123, DoD Directive 5010.38, and the applicable Department of

U.S. Mission to NATO Comments

State regulation to include periodic evaluations and tests of controls.

USNATO concurs with this recommendation.

USNATO is strengthening the management control program by supplementing the Department of State functional questionnaires with additional questions relevant to all USNATO elements including the DoD. USNATO personnel completed comprehensive management control training on 17 June 1997. A Management Control Policy is being developed based on this training which is planned for implementation by the end of September 1997. The Department of State Inspection Report has recommended that the Deputy Chief of Mission be designated as the USNATO management control officer. When implemented, along with a strengthened management control policy, the level of oversight for management controls at USNATO will significantly improve. Concurrently, the implementation of DoD IG audit recommendations, as discussed here, has substantially improved USNATO's administrative functions and strengthened our overall management controls.

2. We recommend that the Director, Joint Administrative Services, Brussels, prepare designation letters and notify assigned Mission personnel of duties, responsibilities, and restrictions for all of the Mission's contracts that delineates the contracting officer's representative. All Mission personnel assigned the duty of contracting officer's representative should be required to acknowledge receipt of the assignment.

USNATO concurs with this recommendation.

USNATO requested the Joint Administrative Services (JAS) to issue designation letters to U.S. Mission contracting officer representatives. This has been done and the duties have been included in the staff members' job description.

3. We recommend that the Under Secretary of Defense for Policy in coordination with the Ambassador, Department of State and the Washington Headquarters Services develop and implement a plan to provide guidance and oversight for the DoD administrative areas of the Mission. The plan should provide for periodic reviews in coordination with other agencies. The oversight plan should be institutionalized in a DoD directive that delineates functional areas and organizational responsibility.

USNATO concurs with this recommendation.

The need for oversight at the USNATO by all participating Agencies, including DoD, is recognized. The Ambassador has overall authority and responsibility to operate a fully integrated organization in accordance with DoD Directive 5105.2. Therefore, USNATO believes this recommendation can best be implemented by having an

integrated USNATO Oversight and Review Plan. This plan must be developed in coordination with all appropriate DoD and Department of State organizations, as well as other participating Agencies. The integrated structure of USNATO requires a single integrated Oversight and Review process. Since USNATO is already inspected every five years by the Department of State, USNATO believes the audit recommendation can best be implemented by augmenting these inspections with DoD experts from the Office of the Under Secretary of Defense for Policy and/or the Washington Headquarters Services. Also, any DoD Directive concerning USNATO must be coordinated with the Department of State and other participating Agencies.

Washington Headquarters Services Comments



ADMINISTRATION &
MANAGEMENT

OFFICE OF THE SECRETARY OF DEFENSE
1950 DEFENSE PENTAGON
WASHINGTON, DC 20301-1950



MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT OFFICE OF THE DOD-INSPECTOR GENERAL

SUBJECT: IG Audit of U. S. MISSION TO NATO

This is in response to the Draft Audit Report on Management Controls of Administrative Operations at the U. S. Mission to the North Atlantic Treaty Organization, Brussels, Belgium, Project No. 6CK-5043. My staff has reviewed the draft report and our comments are as follows:

1.a. Develop and document overall policies and procedures over the administrative operations at the Mission that include, but are not limited to, required approvals, required forms, and management controls. The administrative areas should include, but are not limited to, finance, contracting, time and attendance, personnel, property, petty cash, and representation funds. Establish a policy for the systematic review, at a minimum every two years, of all Mission policies and procedures and update as necessary to reflect changes in application laws and regulations.

We concur with this recommendation. DODD 7000.14-R, the DoD Financial Management Regulation (FMR), provides policy guidance for all DoD components. It contains specific instructions on the programming, budgeting, accounting, and reporting of DoD funds. Because of the complex relationship between the DoD, State, FEMA, and USIA at the Mission in support of the Ambassador, other policy must be given consideration in documenting a local financial management system. However, it must be compliant with the FMR regarding the use of DoD funds. We have advised the Mission staff to adhere to the FMR.

Because of the uneven accounting support provided by the Army, the Mission is considering more reliance on "off-the-shelf" accounting packages and the Joint Administrative Services (JAS) accounting system in Brussels. We are recommending, as an alternative to benefit both the Mission and this office, the installation of the WHS Washington Area Accounting System (WAAS) at the U. S. Mission to NATO. This total accounting system, developed by WHS Budget and Finance (B&F), would solve the problems of funds control, reconciliation, timely reporting, and payroll and travel accounting linkage.

Washington Headquarters Services Comments

The WAAS is being used now at remote sites over the Internet. Transactional accounting data is entered locally and transmitted to the WAAS data base, which is resident in the Pentagon. Standardized or ad hoc management accounting reports can be created and downloaded at the customer site. In addition, a "point and click," "drill down," executive decision management information system is a companion available to the WAAS user.

The WAAS is fully compatible with the Defense Civilian Pay System (DCPS) that will become mandatory for the Mission in FY 1998. It captures DCPS payroll accounting data. The DCPS should correct and enforce the time and attendance discipline now reportedly lacking at the Mission.

DODD 7250.13, Subject: Official Representation Funds (ORF), is the policy document to be used for expenditure for entertainment of foreign dignitaries by OSD components. Again, the local instruction must be accommodating with regard to the expenditure of and accountability for DOD ORF resources, and we have advised the Mission staff accordingly.

1.b. Document the financial management system and the duties and responsibilities of the Mission, Department of Army, and Department of State organizations.

We concur with this recommendation. The report suggests a weakness in the accounting support provided by the Army Regional Finance and Accounting Office due to the lack of sequential numbering of documents and poor reconciliation procedures for accounting transactions. These are serious findings that should be elevated by the U. S. Mission to the attention of the Director, Defense Finance and Accounting Service (DFAS), for immediate corrective action.

1.c. Establish procedures for delegation and acceptance of DoD fund authority.

We nonconcur with this recommendation. DFAS-Indianapolis is the proponent of the automated Program Budget Allocation System (PBAS), which is a Comptroller-directed, mandatory system for funds control involving Defense-wide (DW) appropriations, which was required beginning in FY97. This system replaced the previous manual system. All FY97 funding authorizations for the U. S. Mission have been input by WHS B&F through PBAS to the attention of the Defense Advisor. As the ranking Defense official, the Defense Advisor's position carries the anti-deficiency responsibility for DoD funds limitations issued to the U. S. Mission, regardless of internal delegation of authority.

1.d. Develop and implement sequential numbering systems for controlling and tracking financial documents.

Washington Headquarters Services Comments

We nonconcur with this recommendation. As stated in 1.c. above, the use of the PBAS system was mandatory for Defense-wide appropriations beginning in FY97. PBAS automatically creates sequentially numbered funding documents.

1.e. Develop a system to track and monitor the commitment, obligation, and disbursement of the Mission's DoD funds and train the budget officer in its use. The system should allow the Mission's budget officer to be able to accurately certify funds are available. Request the Army or Department of State to assist as necessary.

We concur with this recommendation. An initiative underway at the DFAS-Indianapolis Center is the Defense Shared Data Warehouse (DSDW). It will allow all Defense-wide funds holders to enter transactional accounting data for budget execution directly into a central database without reporting back through normal "flow-of-funds" channels. When fully implemented, the DSDW will allow all users read-only access and will greatly facilitate reconciliation of accounting reports.

1.f. Establish time frames for submission of travel, representational, and petty cash vouchers and monitor compliance by a voucher reporting system to Mission officials.

We concur with this recommendation. The U. S. Mission staff is in the process of doing so and is evaluating use of the WHS Travel Pilot Project known as PerDiemazing Automated Travel System, which WHS B&F is testing as a Travel Reengineering Pilot Project. Results of the WHS Pilot Project to date are promising. The system captures accounting data at the source and updates the WAAS database automatically. It also provides orders, vouchers, reservations, ticketing, direct deposit, and frequent flyer mileage features. The installation of a customized version of the PerDiemazing software at the U. S. Mission would provide the accounting for, and reconciliation of, travel expenditures for the U. S. Mission.

1.g. Reconcile the Mission's obligations and disbursements monthly and determine the validity of the outstanding obligations. Take appropriate action to liquidate or deobligate funds and coordinate with the Army and the Department of State as needed.

We concur with this recommendation (addressed in 1.b. above).

1.h. Develop a written cost sharing agreement for Mission operating costs in coordination with DoD and Department of State. Any modifications to the cost sharing agreement should be approved by at least the Ambassador.

We concur with this recommendation. The development of a per capita cost sharing agreement for the Mission on a fair and equitable basis is a necessity. However, the audit report is misleading in that it understates the State share by deleting the compensation costs for direct hire personnel. Until the formula is adjusted to reflect reality, the DoD will continue to pay an unfair share of Mission support costs.

1.i. Provide immediate training to Mission personnel involved in financial and contracting areas and ensuring ongoing training for new personnel and to update personnel for changes in the financial and contracting areas.

We concur with this recommendation. The U. S. Mission's Contracting Officer-Technical Representative (COTR) has taken an initial set of classes in the contracting field. He is scheduled to take the next level of contracting classes in September.

1.j. Use an official purchase request and commitment form (similar to the Purchase Request and Commitment, Department of Army Form 3953) for initiating contractual actions with appropriate levels of approvals and certification of funds availability.

We concur in the need. As an alternative, if use of the WAAS is adopted, the U. S. Mission is evaluating the use of WHS forms for contractual purposes.

1.k. Improve maintenance and repair project files that are indexed and contain a checklist with all relevant contract documents for monitoring the progress of the project.

No comment.

1.l. Require specifications and purchase descriptions to be written in detail for all requests for supplies and services.

No comment.

1.m. Require all U. S. Mission employees to receive immediate training on time and attendance policies and procedures and the fundamentals of management control. The Mission should ensure that new employees are adequately trained in these areas and that periodic updated training is provided to all employees as necessary.

We concur with this recommendation. Several waves of training in time and attendance have been completed at the U. S. Mission, and all employees have now been trained. New employees who come on duty with the U. S. Mission will be scheduled for this training.

Washington Headquarters Services Comments

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1.n. Revise the Mission's chain-of-command so that the budget officer has a direct line of responsibility to the Chief of the Mission.

We non-concur with this recommendation. The U. S. Mission's comments on this are acceptable to us.

1.o. Request and implement the results of a DoD and Department of State personnel review of at least the Mission's complete administrative branch, including the Administrative Advisor's position, and other branches' support positions. The review should address the number, type, and grade of positions needed, position descriptions, and performance standards.

We concur with this recommendation. A full report of the personnel management assistance visit by the WHS Personnel and Security staff is currently being reviewed by the U. S. Mission officials, and it will be sent to your office once the U. S. Mission's comments have been received.

1.p. Review and update all service agreements between the Mission and DoD organizations and the Mission and Department of State organizations.

We concur with this recommendation. The report of the civilian personnel review lists several options for providing personnel servicing to the U. S. Mission. When negotiations have been completed between WHS and the agency to provide this service, a detailed service agreement will be prepared.

1.q. Implement an improved management control program in accordance with the Office of Management and Budget Circular A-123, DoD Directive 5010.38, and the applicable Department of State regulation to include periodic evaluations and tests of controls.

We concur in the efforts of U. S. Mission to improve their Management Control Program and remain available to provide technical assistance to USNATO directly or through the USD(Policy) Management Control Officer. The USD(Policy) FY96 Annual Statement Of Assurance recognized weaknesses in USNATO management controls and made commitments to rectify the deficiencies prior to the issuance of a draft report.

2. We recommend that the Director, Joint Administrative Services, Brussels, prepare designation letters and notify assigned Mission personnel of duties, responsibilities, and restrictions for all of the Mission's contracts that delineates the contracting officer's representative. All Mission personnel assigned the duty of contracting officer's representative should be required to acknowledge receipt of the assignment.

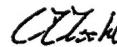
No comment.

Washington Headquarters Services Comments

3. We recommend that the Under Secretary of Defense for Policy, in coordination with the Ambassador, Department of State, and Washington Headquarters Services, develop and implement a plan to provide guidance and oversight for the DoD administrative areas of the Mission. The plan should provide the periodic reviews in coordination with other agencies. The oversight plan should be institutionalized in a DoD directive that delineates functional areas and organization responsibilities.

The DoD administrative oversight of the U. S. Mission to NATO by the USD (Policy) is a fact dictated by directive. However, regardless of the OSD organizational alignment of the DoD element at the Mission, WHS will continue to provide substantial administrative support. Because Defense is the largest of the Federal elements, it should retain overall administrative responsibility in Brussels subject to the provisions of DODD 5105.2 and the pleasure of the Ambassador.

If you have any questions about our comments, please do not hesitate to contact Mr. A. L. Papenfus, Director of Personnel and Security. Mr. Papenfus may be reached at (703) 697-1703.



D. O. Cooke
Director

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